

UTELITE CORPORATION

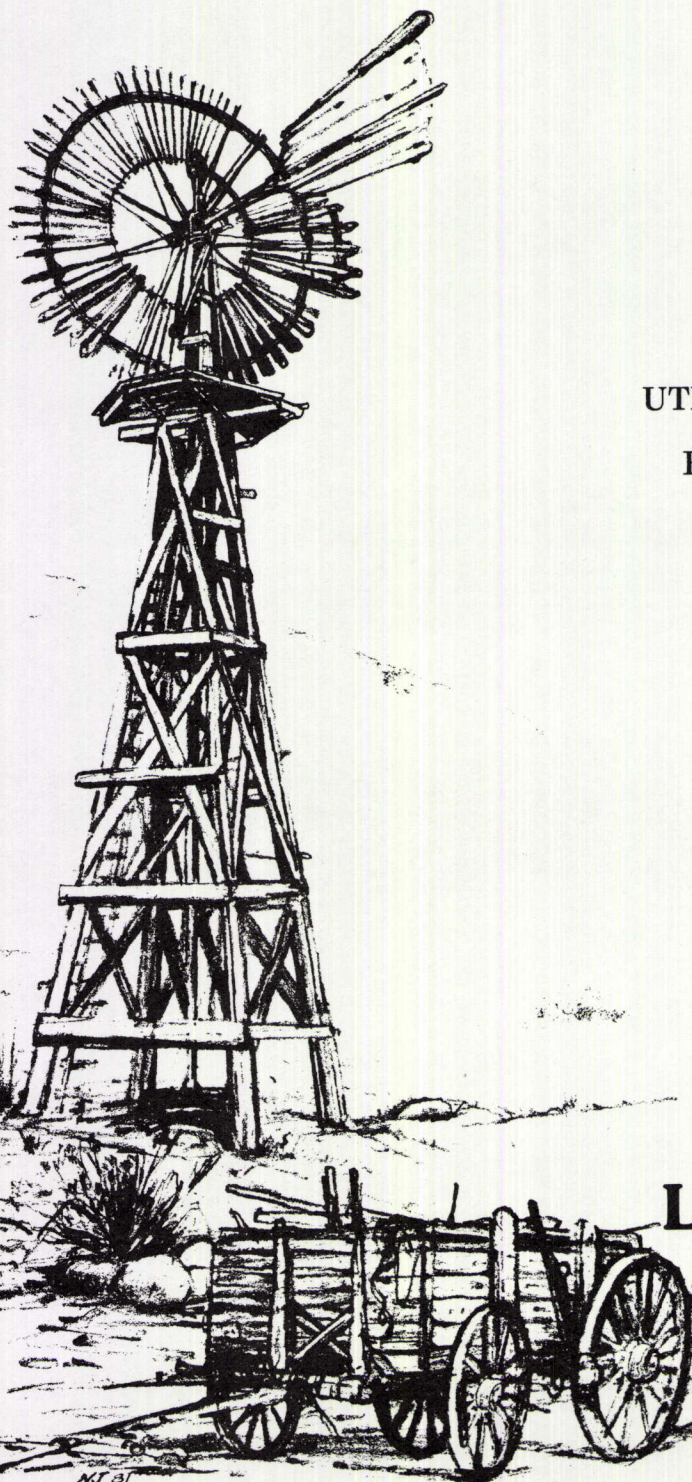
Financial Statements

December 31, 1996

Lynn M. Carlson & Co.

CERTIFIED PUBLIC ACCOUNTANTS

175 SOUTH MAIN STREET
SUITE 250
SALT LAKE CITY, UTAH 84111
TELEPHONE (801) 531-1317



UTELITE CORPORATION

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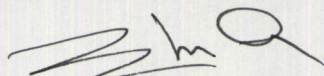
CORRESPONDENCE TO
P.O. BOX 3690
SALT LAKE CITY, UTAH
84110-3690

To the Board of Directors
UTELITE CORPORATION
Coalville, Utah 84017

We have reviewed the accompanying statement of assets and liabilities--income tax basis of **UTELITE CORPORATION** (an S corporation) as of December 31, 1996, and the related statements of revenues and expenses--income tax basis, retained earnings--income tax basis and cash flows--income tax basis for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the owners of **UTELITE CORPORATION**.

The financial statements have been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles. A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note A.



LYNN M. CARLSON & CO.

March 31, 1997

UTELITE CORPORATION
STATEMENT OF ASSETS, LIABILITIES & EQUITY--INCOME TAX BASIS
December 31, 1996

ASSETS

CURRENT ASSETS

Cash	\$	23,657.29
Trade Accounts Receivable		765,388.22
Material Inventory		450,374.66
Notes Receivable--Current		<u>6,217.67</u>

TOTAL CURRENT ASSETS **1,245,637.84**

PROPERTY AND EQUIPMENT

Land	318,486.49
Buildings, Structures & Land Improvements	369,591.84
Plant Machinery & Equipment	4,402,784.73
Pollution Control Equipment	599,312.46
Machinery	840,079.87
Autos, Trucks, Trailers	109,772.77
Office Equipment	66,678.47
Less Accumulated Depreciation	<u>(3,933,156.20)</u>

2,773,550.43

OTHER ASSETS

Notes Receivable--LT	8,978.78
Notes Receivable Shareholders--LT	162,229.04
Deposits & Other Assets	49,551.00
Plant Equipment Under Construction	<u>75,656.76</u>

296,415.58

\$ 4,315,603.85

See accountant's report and notes to financial statements.

UTELITE CORPORATION
STATEMENT OF ASSETS, LIABILITIES & EQUITY--INCOME TAX BASIS
December 31, 1996

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	\$	269,300.52
Accrued Payroll Taxes		9,471.58
Notes Payable--Current		<u>297,005.32</u>

TOTAL CURRENT LIABILITIES 575,777.42

LONG TERM LIABILITIES

Notes Payable--LT	<u>1,131,479.68</u>
	1,131,479.68

1,707,257.10

STOCKHOLDERS' EQUITY

Common Stock, Par Value \$1.00	164,758.00
500,000 Shares Authorized	
164,758 Shares Issued, of which	
49,370 are held in Treasury	
Premium on Capital Stock	235,415.30
Treasury Stock	(49,370.00)
Retained Earnings	<u>2,257,543.45</u>
	<u>2,608,346.75</u>
	<u>\$ 4,315,603.85</u>

See accountant's report and notes to financial statements.

UTELITE CORPORATION
STATEMENT OF REVENUE AND EXPENSES--INCOME TAX BASIS
For the year ended December 31, 1996

SALES **\$ 5,281,155.70**

COST OF SALES

Inventory Adjustment & Purchases	5,978.76
Compensation of Officers	104,273.94
Direct Labor	793,136.32
Plant Power & Utilities	140,766.92
Kiln Fuel	579,423.49
Delivery Expense	1,441,458.28
Small Tools	8,542.31
Supplies	35,246.58
Repairs & Maintenance	453,583.66
Fuel & Oil	88,322.12
Raw Material Royalties	28,395.37
Lab & Testing	3,253.58
	<u>3,682,381.33</u>

GROSS PROFIT **1,598,774.37**

EXPENSES

Marketing & Promotions	32,607.43
Employee Benefits	128,953.00
Payroll Taxes	63,613.72
Advertising	9,863.39
Travel & Sales	9,909.16
Insurance	28,151.76
Telephone	17,856.41
Legal & Professional	78,937.87
Office Supplies & Postage	16,425.99
Taxes & Licenses	35,831.25
Auto Allowance & Expense	15,698.02
Miscellaneous & Bank Charges	9,482.00
Dues, Subscriptions & Contributions	6,127.26
Training	1,824.47
Depreciation	560,700.57
Rents & Leases	42,380.60
Air Pollution Control	14,155.69
MSHA	4,938.00
ESCSI	14,724.27
Depletion	99,148.01
	<u>1,191,328.87</u>

INCOME FROM OPERATIONS **407,445.50**

OTHER INCOME (EXPENSE)

Interest & Dividend Income	18,174.87
Gain or (Loss) on Sale of Assets	(122.39)
Interest Expense	(95,377.34)
	<u>(77,324.86)</u>

NET INCOME **\$ 330,120.64**

See accountant's report and notes to financial statements.

UTELITE CORPORATION
STATEMENT OF CASH FLOWS—INCOME TAX BASIS
For the year ended December 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 5,122,747.46
Interest and dividends received	18,175.00
Other operating receipts	1,606.10
Cash paid to suppliers and employees	(4,659,937.39)
Interest paid	<u>(95,377.34)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES **387,213.83**

CASH FLOWS FROM INVESTING ACTIVITIES:

Cash payments for the purchase of property	<u>(1,738,950.07)</u>
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NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES **(1,738,950.07)**

CASH FLOWS FROM FINANCING ACTIVITIES:

Net borrowings on line of credit	1,494,916.96
Principal payments on long-term debt	(156,507.00)
Dividends paid	<u>(227,000.01)</u>

NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES **1,111,409.95**

NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS **(240,326.29)**

CASH AND EQUIVALENTS, BEGINNING OF YEAR **263,983.58**

CASH AND CASH EQUIVALENTS, END OF YEAR \$ **23,657.29**

See accountant's report and notes to financial statements.

UTELITE CORPORATION
STATEMENT OF CASH FLOWS—INCOME TAX BASIS
For the year ended December 31, 1996

**RECONCILIATION OF NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Net Income	\$ <u>330,120.64</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	659,845.15
(Gain) loss on disposal of property	1,728.49
(Increase) decrease in accounts receivable	(162,595.70)
(Increase) decrease in inventories	(393,120.33)
(Increase) decrease in other assets	4,187.46
Increase (decrease) in accounts payable	<u>(52,951.88)</u>
Total adjustments	<u>57,093.19</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>387,213.83</u>

See accountant's report and notes to financial statements.

UTELITE CORPORATION
STATEMENT OF RETAINED EARNINGS—INCOME TAX BASIS
For the year ended December 31, 1996

ACCUMULATED ADJUSTMENTS ACCOUNT

Balance, January 1, 1996	\$	1,000,470.57
Taxable Income		330,120.64
Distributions		<u>(227,000.01)</u>
Balance, December 31, 1996		1,103,591.20

PREVIOUSLY TAXED INCOME

Balance, January 1, 1996	20,215.73
Distributions in Excess of the Accumulated Adjustments Account	<u></u>
Balance, December 31, 1996	20,215.73

OTHER RETAINED EARNINGS

Balance, January 1, 1996	1,133,736.52
Balance, December 31, 1996	<u>1,133,736.52</u>

TOTAL RETAINED EARNINGS, DECEMBER 31, 1996	\$ <u>2,257,543.45</u>
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See accountant's report and notes to financial statements.

UTELITE CORPORATION
Notes to Financial Statements
(See Accountant's Report)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Basis of Accounting

The Company's policy is to prepare its financial statements on the income tax basis of accounting; consequently, the Company recognizes depletion expense as the greater of cost depletion or statutory depletion. Under generally accepted accounting principles, only cost depletion is acceptable.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

Allowance for Doubtful Accounts

No reserve for bad debt has been established by the Company. Historically, uncollectible accounts receivable have not been significant enough to warrant establishing a reserve. Bad debts are written off as it becomes evident that they are uncollectible; any recoveries are included in income when received.

Inventories

Inventories are valued at the lower of cost or market under the first-in, first-out, (FIFO) method. Cost is determined using the Internal Revenue Code's guidelines with respect to uniform capitalization of inventory.

Depreciation

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the related assets using the accelerated cost recovery system and the modified accelerated cost recovery system required by the Internal Revenue Code.

Cash

For purposes of the statement of cash flows, the Company includes only cash on deposit and similar demand deposits that are not subject to withdrawal restrictions or material penalties as cash and cash equivalents.

NOTE 2—PROFIT SHARING PLAN

The company maintains a profit sharing plan for its employees. Contributions to the plan are based on eleven cents (\$.11) per yard of product sold in the quarters that the Company is profitable, an additional \$.0225 per yard of product sold and \$.0225 per yard of product

UTELITE CORPORATION
Notes to Financial Statements
(See Accountant's Report)

produced are contributed to the profit sharing plan regardless of whether the company is profitable or not.

Profit sharing contributions expensed as an employee benefit in these financial statements are \$32,368.07.

The company also provides a fringe benefit cafeteria plan for its employees.

NOTE 3—LONG-TERM DEBT

Notes payable at December 31, 1996 are as follows:

	<u>1996</u>
First Security Bank has extended a \$250,000 line of credit, the terms of which were modified and renewed July 22, 1996, extending the maturity date of the Note to July 22, 1997. Current interest rate on the line of credit is 9.5%, and the entire principal balance of the note is due prior to July 22, 1997. The loan is secured by trade accounts receivable and inventory.	\$ 215,000.00
Less Amount Due Within One Year	(215,000.00)
	<u>\$.00</u>

Interest expense on this loan in the amount of \$5,479.27 has been deducted in these financial statements.

A note payable due First Security Leasing, incurred June 26 1996. The note has a ten-year term, monthly principal and interest payments of \$16,236.35 and bears an interest rate of 9.59%. The proceeds from this loan were used to finance a major plant expansion. The Company added an additional kiln and the supporting equipment required to bring the kiln into production. The loan is secured by all the equipment and fixtures at the plant site.	\$1,213,485.00
Less amount due within one year	(82,005.32)
	<u>\$1,131,479.68</u>

Interest expense on this loan in the amount of \$88,719.59 has been deducted in these financial statements.

UTELITE CORPORATION
Notes to Financial Statements
(See Accountant's Report)

NOTE 4—BUY/SELL AGREEMENT

The Company has entered into an agreement with its four stockholders that obligates the Company, upon the death of a stockholder, to purchase the deceased stockholder's stock in the Company. The purchase price is established by formula.

NOTE 5—CONTINGENT LIABILITIES

Four years ago a lawsuit was brought against Summit County and Summit County Planning Commission for improperly issuing a permit to the Company allowing them to build a rail loading facility in a certain location. In 1994, the Company was named as a defendant in that lawsuit.

As a result of a ruling in that lawsuit, the Company has paid \$15,000 to the Clerk of the Court to be held in escrow pending plaintiffs' appeal of that judgment.

Although no assurances can be given as to the outcome, the Company believes that it has meritorious defenses to such lawsuit. The Company does not believe that the outcome of such proceeding or the pending appeal will have a material effect on its financial position.

NOTE 6—NONBINDING LETTER OF INTENT

Early in 1996 the Company signed a nonbinding Letter of Intent to sell their assets to a large company. The sale was not consummated and ownership of the company remains the same.